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American Institute of Accountants

Library and Bureau of Information

SPECIAL BULLETIN No. 2

March 1920

[The Committee on Administration of Endowment authorizes the publication of special Bulletins, of which this is one, on the distinct understanding that members are not to consider answers given to questions as being official pronouncements of the Institute, but merely the individual opinions of accountants to whom the questions were referred.]

It is earnestly requested that members criticize freely and constructively the answers given in this or any other Bulletin of this series.]

Attention is drawn to a plan of partnership agreement which has been printed as a separate pamphlet and is available for distribution to members who are interested.

The agreement covers a plan of goodwill and non-goodwill partnership, and should be of interest to many accounting firms. Single copies may be obtained from the office of the Institute without charge.

The following is reprinted from the Bulletin of Haskins & Sells, January 15, 1919.

L. S. MILTIMORE, *Librarian.*

SUGGESTIONS FOR PROFESSIONAL CONDUCT

These pages are intended as a source of information and general guide to the members of the staff in the matter of professional conduct. Confidential matters relating to professional conduct and technique are embodied in a volume entitled "Confidential Instructions," which is on file in the library. All instructions should be consulted frequently until the accountant is entirely familiar with them.

It is considered desirable that all members of the staff learn as quickly as possible the ways of the firm, grow into harmony with its ideals and traditions, and absorb its technique. It is important that each one have the proper point of view, assume the proper attitude toward his work, and appreciate the responsible function which is delegated to him as a representative of the firm. The file of the monthly Bulletin, which is in the library and which gives something of the history and development of the firm, will be found helpful in this respect. It is the desire of the firm that members of the staff confine their attention exclusively to the work of the firm and concentrate thereon with the purpose of cooperating in the rendering of effective service to clients.

The department for professional training has the function of acquainting new members of the staff with their professional relations, duties, and responsibilities; in serving them subsequently in the matter of advice and information, professional, technical, and personal; in looking after their comfort; and in planning and directing their educational development.

The library is provided as a comfortable and attractive place in which the members of the staff work and spend their time when not engaged in accounting work. A suggestion box located therein offers an opportunity for communications relating to the accountant, his work, the work of the firm, conditions, relations, methods, or what-not.

The books in the library are for the use and information of the staff and as well all other members of the organization. They may be

withdrawn from the shelves for use in the library without consulting anyone. After having served the purpose of the reader they should be left on the library table in order that the librarian may return them to their proper places on the shelves. Books desired for home reading or outside use may be obtained after the mere formality of registering them with the librarian. Suggestions as to reading will, if desired, be furnished by the director of professional training.

EQUIPMENT

All equipment, such as working bags, folders, papers, pencils, erasers, etc., are provided for the use of accountants. The only exception to this rule is a fountain pen, which the accountant requires for certain of his work and with which he should provide himself.

HOURS

When engaged on work in the offices of the firm the hours to be observed are those prescribed for the respective offices.

When engaged on work for clients outside of the office of the firm, accountants should within reason observe the hours of the offices in which they are working. Any substantial extension of the usual time either at the beginning or end of the day, so that the total becomes more than eight hours, may be ignored, or if observed should be reported as overtime.

In starting an engagement time should be charged from the hour of departure from the office.

Fractions of days should be reported as eights or multiples thereof, reducing the fractions in the summary where possible to quarters or halves.

When working in the evening the supper hour should, for the information of the bookkeeping department, be shown. Reimbursement for supper expense, in an amount fixed by the respective offices, may, where the work extends beyond seven o'clock in the evening, be obtained from the cashier on a petty cash slip.

Where the office of a client closes on Saturday at noon, or at one o'clock, so as to prevent the accountant from working in the afternoon, a full day should be charged. The circumstances in such cases should be noted on the time report.

Days spent in traveling, including Sundays and holidays, should be charged. In such instances the time should be limited to the usual office hours.

It is the desire of the firm that work unreasonably beyond the regular hours of clients and as a regular matter be avoided whenever possible. This does not mean that an accountant should display over-anxiety to get away from his work. It does mean that time in addition to office hours as a regular thing until it becomes a habit is undesirable.

Where the client presses to have work finished within a certain time it is the policy to meet the desires of the client. In such instances, or where the circumstances are such as to make necessary the extension of the work beyond the regular hours, it is hoped that accountants will accept the situation as being an incidence of the profession. Overtime should invariably be reported.

COMPENSATION

Salaries are paid semi-monthly. Where so requested checks will be sent to the bank for deposit.

It is the policy of the firm not to pay for overtime or extra work. This is partly on the theory that such practice tends to discourage unnecessary work beyond the usual hours and partly that the range of salaries paid to members of the staff who continue in the service of the firm is sufficiently high to compensate them for such encroachment on their time. Where the conditions surrounding an engagement are unusual

and result in extraordinary demands on the accountant, allowances are sometimes voluntarily made by the firm.

PERSONAL REPORTS

This section refers to reports rendered by members of the staff to the office and not reports by the firm to clients. The former embrace time and expense reports (form 110a), and the miscellaneous informal reports which from time to time are necessary.

Time and expense reports are required of members of the staff on the 10th, 20th, and last day of each month. No duty of the accountant is more imperative than the prompt rendering of this report. When it is appreciated that the report is the basis of the charge to clients the importance of promptness in this respect will be apparent. Accountants when out of town should appreciate especially the fact that all reports are necessarily some time in transit and be governed accordingly.

Accountants who are assigned to out of town engagements should advise the office of the hotel at which they plan to stop. If subsequently a change is made the office should be advised promptly.

Accountants should keep the offices to which they are attached advised of their whereabouts at all times, using the wire if so far distant that mail cannot reach the office within twenty-four hours.

When accountants are unable, on account of illness or other reason, to report at the office, or at the client's office, they should have the office immediately notified by telephone or telegraph in order that the client may be notified. When accountants are on engagements in places other than cities in which offices of the firm are located the clients' office should be notified direct.

Accountants whether in town or out should notify promptly the office to which attached of any change of address or telephone number.

EXPENSES.

It is the desire of the firm that members of the staff shall travel and live while on out of town engagements in a manner befitting their professional standing. At the same time, since expenses are incurred for account of clients, it is necessary that the expenses be kept at the minimum consistent with such status. The accountant should live comfortably and well without being extravagant.

In order to facilitate the bookkeeping it is preferable that the accountant in charge pay all traveling and subsistence expenses of his assistants. This rule need not be adhered to where circumstances, such as the comfort or convenience of members of the party, make it desirable that each individual pay his own expenses.

Accountants previous to departing on out of town engagements are provided with funds for expenses. These funds should be accounted for, supporting the disbursements, with vouchers wherever practicable, at the time of rendering time and expense reports.

The following indicates the character of the expenses which may be incurred:

Traveling:

Railroad fare (lowest first class through rate).

Sleeping and chair cars (one berth or seat).

Transfers (personal and baggage).

Gratuities (porters in Pullman cars at about the usual rate of 25 cents per trip of twelve hours).

Subsistence:

Rooms and meals.

Gratuities, laundry, clothes pressing, car-fares, and such things as are usual to include in expense—depending on locality and conditions—from \$1.00 to \$1.50 per day.

Miscellaneous:

- Telegrams and telephone.
- Stationery.
- Other (to be itemized).

The allowance for subsistence, including gratuities, laundry, and pressing, will be limited to reasonable amounts depending on locality and circumstances. Such amounts might perhaps be \$4.00 per day in towns and smaller cities, and run as high as \$7.00 in some metropolitan cities.

Consideration should be given to the probable length of time that will be required to complete an engagement with a view to making hotel arrangements by the week instead of by the day in order that a better rate may be obtained if possible.

When accountants are engaged away from home, in cities where the firm has offices, the daily allowances for subsistence, gratuities, and laundry, etc., will be left to the discretion of the partner or manager under whom the accountant is engaged.

In cases where, owing to pressure of work, the accountant has not had time to find a suitable place at which to locate, actual expenses, in reasonable amounts, will be allowed for a period sufficient for this purpose.

When an accountant who is on a prolonged engagement is accompanied by a member of his family, an allowance, depending on location and circumstances, will be granted if desired in lieu of subsistence expenses.

Accountants who are about to undertake engagements involving expenses which are to be sustained by any division of the government, should ascertain the specifications and requirements thereof, with regard to expense allowances and vouchers. Travel regulations of the United States Treasury Department containing information of this character may be consulted upon application to the librarian.

TIME AND EXPENSE REPORT BOOK

This book is intended to afford a convenient place in which the details of time and expenses may be recorded, and to facilitate the rendering of time and expense reports.

The sheets are of two kinds, those which are ruled for expenses and a daily cash account, and those in blank which are for the time spent on engagements. The former need be carried only by accountants who are on out of town engagements.

In this book, on the blank pages, should be noted daily, the date, the hours engaged, the engagement and the particulars relating to the work of the engagement. For example, "October 15, 1917, 9-12: 1-5, Warburton Desk Company, Counting cash and reconciling bank account."

The information relating to an engagement should be entered in the time book very explicitly but concisely, and so transferred to the time report. It should be remembered that the latter record is the only one upon which the firm may depend when discussions with clients relating to the work become necessary. Reference to the accountant who did the work is not always possible, as he may be out of town or otherwise out of reach. The time report should be so full and clear as to make this unnecessary.

Particular attention should be given to showing clearly, where there are subsidiary or otherwise related companies or branches, the work on each company or branch.

In the case of monthly audits the month to which the work applies should be supplied.

If the work is performed at a place other than that indicated by the memorandum of engagement the fact should be shown, as should work performed for clients in the offices of the firm.

While the loose-leaf binder permits replacing used sheets with new ones, the former should be preserved by the accountant. They are sometimes useful long afterward in refreshing one's memory as to precisely

what was being done at a given time. They will if desired be filed in the office of the firm.

PERSONAL CONDUCT

Each accountant is a representative of the firm. It is therefore desirable that his conduct be a credit to the firm. Many little things, such as personal appearance, personal habits, behavior, attitude toward client and employes, go to form the impression which the accountant conveys. It is important, therefore, that care be exercised at all times to avoid anything which will result in placing our representative in disfavor.

Smoking in offices, for example, frequently proves objectionable. Accountants are therefore requested to refrain from smoking while engaged in the offices of clients where the clerical force is not permitted to smoke or without first ascertaining whether or not there is any objection to such indulgence.

Since all our engagements are of a confidential nature the name, or address, or telephone number of a client should not be disclosed. The use of the client's telephone for personal matters is not desirable and should only be indulged in where unavoidable. In cases of necessity communication may be had with accountants through the respective offices of the firm.

Money or gratuities should not be accepted from clients, and any such offers should be reported to the firm. Personal checks should not be cashed at (client's) offices and only in cases of emergency will exception to this rule be permissible. The necessity of having a rule to the effect that money must not be borrowed from clients or employes of clients will undoubtedly be apparent. While the firm does not desire to encourage borrowing on any scale it much prefers that if an accountant finds it necessary to borrow small sums the application be made to the firm.

It is undesirable that accountants become too intimate with clients and their employes. The attitude of the former should be one of dignified friendliness. Any association which requires more than this should be avoided. This does not mean that accountants may not with propriety accept reasonable entertainment. It does mean that the relations should not be carried so far as to make possible subsequent embarrassment.

Clients and their employes should not be antagonized. They should be accorded courteous, dignified treatment under all circumstances. This may at times be difficult, but is the proper position to take. The test of an accountant's calibre frequently is his ability to maintain his equanimity and dignity under trying circumstances.

PROFESSIONAL ETHICS

Accountants should not discuss clients, their work, or any feature thereof, with anyone, under any circumstances, except members of this organization. When it is realized that all the work of the public accountant is necessarily the private business of someone else everything which comes to his attention should be treated as strictly private and confidential.

The bookkeeping or accounting system of the client should not be criticised or discussed with the client's employes.

The business, work, or characteristics of other public accountants should not be commented upon, criticised, or discussed.

It is not considered good form to discuss with the client or his employes such matters as the length of time the accountant has been with the firm or the amount of his compensation.

It is considered unethical for a member of the staff to solicit or to arrange for employment with a client or other accounting organization without first discussing the matter with the firm.

PROFESSIONAL REPORTS

Accountants should obtain from the files copies of reports which have been rendered and familiarize themselves with the form and content

thereof. The working papers accompanying such reports should also be studied. The director of professional training will, if desired, make suggestions with respect to the selection of such reports.

The accountant should place his signature on the first page of the comments and each page of the exhibits and schedules of all reports and statements which he prepares. If some other accountant checks the statements, he also should sign them, indicating the fact that he has checked them.

Abbreviations should not be used and special care should be taken to see that names are legibly written.

Accountants should bear in mind the fact that their working papers frequently have to be referred to by the office, consequently such papers should be complete and clear. The name of the accountant doing the work should appear on the upper right hand corner of all working papers. As far as practicable, standard size journal and analysis paper should be used. Each statement should be properly headed with titles and dates, and, if folded, should be properly endorsed. Superseded statements should be so marked on the outside as well as across the face. The trial balance should have notes opposite each item as to its character, if not analyzed, and how verification was made. If analyses are made, they should be referred by numbers to the trial balance. All differences between book figures and figures which we are to present should be clearly set forth in journal entry supporting the working sheet. Working papers for consolidated balance sheets and income statements should show clearly in a separate column all eliminations as among component companies, and such eliminations should be supported by a detailed statement giving a description of each item eliminated.

All work connected with an engagement should be completed, as far as possible, at the office of the client.

BREWERIES

I write to ask if you can secure for me figures applicable to the rate of depreciation chargeable on brewery machinery and which have been, or are likely to be, approved by the income tax inspector. They are needed in a case concerning which the conditions are as follows:

A brewery began operations in 1913 and prepared its annual statements so far as we know, without any expert assistance until the end of 1917, when they engaged us to prepare their balance sheet and income tax return, work which has remained in our hands since that date.

When we closed the books for 1917 we found that depreciation had not been written off to an extent which we thought proper and we, therefore, set up a depreciation reserve, accretions to which have since been made from year to year.

The returns of the brewery have recently been inspected by the Treasury Department and the inspector insists, not without reason, that the depreciation should have been written off from the beginning and has prepared a fresh set of statements on this basis. The result is that while the brewery could obtain additional credits and return of taxes for the years 1914-15 and 1916, the effect is to reduce the value of their brewery plant and therefore of their invested capital, so that in 1917-18 and 1919 their taxes will be increased by a good many thousands of dollars.

The following schedule sets forth the classification which our clients have adopted and shows the rate of depreciation suggested by the income tax inspector.

	Inspectors	(-----)
Building brick and concrete.....	2½	2½
Boiler and furnace.....	10	10
Machinery	10	10
Piping	10	10
Tools	25	25
Brewhouse equipment.....	10	10
Cellar equipment.....	10	10
General equipment.....	10	10
Saloon equipment.....	20	00
Office furniture and fixtures.....	10	25
Autos and trucks.....	30	10
Bottling plant.....	15	33½
Floating cooperage.....	15	33½
Warehouse	50	—

In addition to this depreciation, we charged off rather heavily for obsolescence for 1918 in accordance with the special instructions issued in connection with breweries.

A. We have received the following answer to your question.

Replying to the query regarding depreciation allowed by the Treasury Department in connection with accounts of breweries, I beg to advise that in one instance the rates of depreciation as allowed to your correspondent practically agreed with those which we in our regular practice have set up as depreciation reserve, but which were in three cases lower than those allowed by the inspector in the case stated, namely, tools set up by us at 20 per cent. allowed 25 per cent. in the question submitted, autos and trucks 25 per cent. allowed 30 per cent. The floating cooperage stood very low on the books of this company, so that we had deemed 5 per cent. ample depreciation on the values appearing by the books. It has been our practice, however, to write off 15 per cent. on quarters and 40 per cent. on half barrels, but so far we have not had any examination made where this depreciation has been provided.

In the main we think the rates of depreciation allowed by the department are well within or above depreciation rates which would be used in the ordinary way of business.

MINING COMPANY

Q. An accountant is called upon to audit the books of a tungsten mining corporation. He finds that the trial balance as of December 31st, 1917, is as follows:

<i>Debits</i>	
Mining lands.....	\$1,000,000.00
Buildings	10,500.00
Machinery and equipment.....	18,000.00
Tunnel construction.....	20,000.00
Accounts receivable.....	2,000.00
Cash in bank.....	500.00
Profit and Loss.....	10,000.00
	<hr/>
	\$1,060,000.00

<i>Credits</i>	
Capital stock.....	\$1,000,000.00
Notes payable to bank.....	10,000.00
Accounts payable.....	10,000.00
Reserve for working capital from treasury stock sales	40,000.00
	<hr/>
	\$1,060,000.00

The company was organized six years ago. The minutes show that the land was taken over for the entire issue of 1,000,000 shares of capital stock, at par value of \$1.00 each, and that 500,000 shares were donated back to the treasury to be sold for the purpose of raising working capital. Of this treasury stock 160,000 shares have been sold at an average price of 25 cents per share, and 360,000 shares remain in the treasury unsold.

The first four years of operation showed a small profit each year, the last two years were at a loss and operations are now at a standstill. No positive value can be placed upon the land, but it consists of 800 acres in the best part of the tungsten district. Buildings and machinery are conservatively valued. The tunnel has been driven about three-fourths of the way to the objective. No paying ore has been crossed, but it is expected to connect with one of the paying mines and cheapen the cost of production.

The stock has no definite market value. Treasury stock has been sold through circulars, at an arbitrary price, in the usual way of wildcat promotion. The company is managed by men who stand well as to business and character, and who have staked their all on the success of the company. The conditions as a whole are typical of a considerable number of mining companies in the west, standing midway between the purely wildcat schemes and the paying mines.

What would be an approved form for setting up a balance sheet? Should treasury stock for such indefinite value be shown as a part of the balance sheet, and if so, how? What sort of a certificate of audit is it possible for an auditor to write for such a business?

A. We are of the opinion that, all things considered, it would be proper to show the treasury stock on the debit side as an item, expressing the number of shares with a nominal value of say \$1.00, which should be credited to Profit and Loss.

As a protection against a misunderstanding, the capital stock caption should be followed with a bracket, showing the number of shares issued and those on hand in the treasury. If it were not for the statement that the minutes show the land to have been taken over in exchange for the capital stock at par, I would prefer to have shown the land at a nominal value and the capital stock in shares, at the par per share, without extending the amount.

It might be well to set in the balance sheet an explanation of the credit of \$40,000, proceeds from sale of treasury stock, thus:

Treasury stock donated.....	\$500,000.00
Deduct—Treasury stock unsold.....	340,000.00
	<hr/>
Sales of treasury stock.....	\$160,000.00
Less—Discount on sales of treasury stock.....	120,000.00
	<hr/>
Surplus, from sales of treasury stock.....	\$ 40,000.00

The certificate should not be given at all if it is likely to be used for promotion purposes, and even for proprietary purposes should be so qualified as to show that the stockholders or directors, or perhaps both, giving reference to the date, had, as shown by the minutes, appraised the land and authorized it to be taken up at a million dollars.

The other transactions appear to be in order and need no qualification.